

In the Matter of)	
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St. Paul Fire and Marine)	No. D06-249
Insurance Co., St. Paul Guardian)	Consent Order Imposing a Fine
Insurance Co., St. Paul Mercury)	
Insurance Co., Discover Property)	
& Casualty Insurance Co., United)	
States Fidelity and Guaranty)	
Insurance Co., Fidelity and)	
Guaranty Insurance Underwriters,)	
Inc., Fidelity and Guaranty)	
Insurance Co.,)	
Authorized Insurers)	

FINDINGS OF FACT

1. St. Paul Fire and Marine Insurance Company and its affiliates¹ ("St. Paul" or "Company" hereafter) are foreign insurance companies authorized to transact insurance in the state of Washington in the lines of disability, property, marine transportation, vehicle, casualty, and surety insurance.
2. The Office of the Insurance Commissioner (OIC) conducted a market conduct examination of St. Paul March 1, 2002 through February 28, 2003 ("current market conduct exam"). The examination included areas of agent activities, underwriting and rating, rates and forms filings, and cancellations and non-renewals.
3. The report on the current market conduct examination of St. Paul was adopted by the Insurance Commissioner by Findings, Conclusions, and Amended Order Adopting Report of Market Conduct Examination No. G-04-72, entered August 26, 2004, which order is final.
4. After the current market conduct examination was completed, the St. Paul companies merged with Travelers in 2004. The Travelers compliance department has assumed

¹ St. Paul Fire and Marine Insurance Co., St. Paul Guardian Insurance Co., St. Paul Mercury Insurance Co., Discover Property & Casualty Insurance Co., United States Fidelity and Guaranty Insurance Co., Fidelity and Guaranty Insurance Underwriters, Inc., Fidelity and Guaranty Insurance Co. These companies were included in the March 1, 2002 through February 28, 2003 market conduct exam.

responsibility for responding to the OIC's market conduct examination. The merged group of companies is known as St. Paul Travelers.

5. The St. Paul companies² were previously examined by the Office of the Insurance Commissioner. The dates of the prior examination were September 1, 1997 through February 28, 1998 ("previous market conduct exam"). The examination report was adopted by Order number G-99-31 on June 8, 1999. St. Paul entered into a consent order number D-2000-03 following this examination on May 9, 2001 ("previous consent order"). This consent order imposed a fine of \$225,000, of which \$100,000 was suspended upon the condition that St. Paul commit no further violations of the statutes and regulations that were the subject of that consent order for a period of two years following May 9, 2001, unless the violations were isolated, de minimis in nature.
6. The current market conduct examination was conducted during the two-year period during which St. Paul had agreed in the previous consent order to comply with Washington laws.
7. St. Paul acquired the United States Fidelity and Guaranty Company and its affiliated insurers (hereinafter "USF&G") in April 1998, between the previous market conduct exam and the current market conduct exam. Violations by USF&G companies found in the current market conduct exam are therefore categorized as new, not repeat, violations.
8. Pursuant to RCW 48.17.060 and 48.17.160, all agents doing business in Washington must be licensed within the State of Washington and appointed to represent the company for which they are selling policies. The OIC has a zero-tolerance policy for company failures to use licensed and appointed agents. The examination revealed that during the current examination period, one unlicensed agent issued one policy and three agents who were not appointed to St. Paul issued one policy apiece. This finding repeated a finding from the previous market conduct exam, which found nine agents who were not appointed to St. Paul issued sixteen policies
9. WAC 284-24-100 requires underwriters using a schedule rating plan to document evidence justifying the rates, including evidence supporting the use of debits or credits to alter the premium. No departure from the rates otherwise applicable may exceed twenty-five percent. Seventeen policies issued by USF&G and nine policies issued by the remaining St. Paul companies failed to contain documentation supporting the debits or credits given or the decision to rate the policies as average risk. \$15,874 was returned to ten policyholders. The nine violations found among

² Consisting of St. Paul Fire and Marine Insurance Company, St. Paul Mercury Insurance Company, St. Paul Guardian Insurance, Athena Assurance Company, St. Paul Medical Liability Insurance Company, Northbrook Property and Casualty Insurance Company, Northbrook Indemnity Company, Northbrook National Insurance Company and Seaboard Surety Company. These companies were included in the September 1, 1997 through February 28, 1998 exam.

the remaining St. Paul companies repeat a violation found in the previous market conduct examination.

10. RCW 48.19.040(6) requires that all policies issued must conform to the rates filed with the Office of the Insurance Commissioner. Four policies issued by USF&G and two policies issued by the other St. Paul companies, out of 200 policy files reviewed, did not conform to the filed rates. Although the violations were de minimis and isolated in nature, the OIC has a zero-tolerance policy for an insurer's failure to use the rates filed with the OIC. The two violations by the other St. Paul companies constitute a repeat violation from the previous market conduct examination.
11. RCW 48.18.2901 establishes timeframes within which insurers must send renewal notifications, and defines information on changes in premium and coverage that must be included within the notifications. In four USF&G policies and two policies from other St. Paul companies, of 200 files reviewed, the notifications were sent late or failed to include required information on changes to the policy. While the previous market conduct examination also found similar violations, they were not penalized in the previous consent order. Therefore, for purposes of this enforcement action, these violations are all considered new violations.
12. RCW 48.18.2901(1)(a) and WAC 284-30-570 require an insurer to state the actual reason for canceling, denying or nonrenewing insurance in clear and simple language which does not cause a reasonable insured to need to inquire further to determine the reason. Thirteen notices issued by USF&G and thirty-six notices issued by other St. Paul companies, out of 50 notices of non-renewal reviewed during the examination period, contained only broad, general statements about nonrenewal which failed to include the required information. While the previous market conduct examination also found similar violations, they were not penalized in the previous consent order. Therefore, for purposes of this enforcement action, these violations are all considered new violations.
13. RCW 48.05.190(1) requires licensed insurers to conduct business under their own legal names. Correspondence in one USF&G file and four St. Paul files, out of 100 policy files reviewed, used an improper company name. Furthermore, ten USF&G nonrenewal or cancellation notices and six St. Paul company notices, out of 50 nonrenewal or cancellation notices reviewed, used an improper company name. The violations by the St. Paul companies constitute repeat violations from the previous market conduct examination.

Based upon the foregoing Findings of Fact, the Commissioner makes the following:

CONCLUSIONS OF LAW

1. RCW 48.05.185 authorizes the Insurance Commissioner to impose a fine in lieu of the suspension or revocation of a company's license.

2. The Company's failure to ensure all agents were appropriately licensed and appointed violated RCW 48.17.060 and 48.17.160. These are repeat violations.
3. The Company's failure to document evidence justifying schedule rating, including evidence supporting the use of debits or credits to alter the premium, violated WAC 284-24-100. Of the twenty-six violations found, nine are repeat violations.
4. The Company's failure to conform all policies issued to the rates filed with the Office of the Insurance Commissioner violated RCW 48.19.040(6). Of the six violations found, two are repeat violations.
5. The Company's failure to send timely or complete written notice of renewals violated RCW 48.18.2901. Of the six violations found, none constitute repeat violations.
6. The Company's failure to state the actual reason for canceling, denying or nonrenewing insurance in clear and simple language which does not cause a reasonable insured to need to inquire further to determine the reason violated RCW 48.18.2901(1)(a) and WAC 284-30-570. Of the forty-nine violations found, none constitute repeat violations.
7. The Company's failure to conduct business in its own legal name violated RCW 48.05.190(1). Of the twenty-one violations found, ten constitute repeat violations.

CONSENT TO ORDER

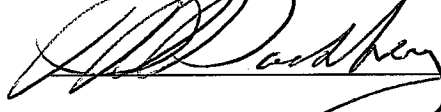
NOW, THEREFORE, St. Paul and its affiliated companies consent to the following in consideration of their desire to resolve this matter without further administrative or judicial proceedings, and the Insurance Commissioner consents to settle the matter in consideration of ST. Paul's payment of a fine, its voluntary payment of interest, and such other terms and conditions as are set forth below:

1. St. Paul consents to entry of the foregoing Findings of Fact and Conclusions of Law. St. Paul consents to the entry of this Order and waives further administrative or judicial challenge to the OIC's actions related to the subject matter of the Order.
2. Within sixty days of the entry of this Order, St. Paul agrees to pay to the OIC the following fines:
 - a. For new violations: a fine in the amount of \$170,000, of which \$85,000 is suspended for a period of two years on condition that St. Paul shall not violate the provisions of the Washington State Insurance Code and Washington Administrative Code which are the subject of this Order and on condition that St. Paul carry out the provisions of, and shall comply with, the Compliance Plan set forth in Exhibit A.

- b. For repeat violations: an additional fine in the amount of \$50,000 of the previously-suspended fine of \$100,000 imposed by consent order number D-2000-03.
3. Failure to pay the fine set forth in paragraph two shall constitute grounds for the revocation of the Company's certificate of authority and for the recovery of the full fine, including the suspended portion.
4. St. Paul understands and agrees that failure to comply with the statutes and regulations which are the subject of this Order during the two-year period following entry of this Order or failure to comply with the Compliance Plan set forth in Exhibit A shall constitute grounds for recovery of the suspended portion of the fine. The OIC will not impose the balance of the fine nor proceed against St. Paul's certificate should it commit isolated, de minimis violations of the statutes, regulations or Compliance Plan that are the subject of this Order during the suspense period. St. Paul commits to rectifying such violations promptly once they are discovered.

EXECUTED this 20th day of September, 2006.

St. Paul Fire and Marine Insurance Co.



Typed Name: Bruce Allen Backberg

Typed Corporate Title: Sr. VP and Secretary

St. Paul Guardian Insurance Co.



Typed Name: Bruce Allen Backberg

Typed Corporate Title: Sr. VP and Secretary


St. Paul Mercury Insurance Co.



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Discover Property & Casualty Insurance Co.



Typed Name: Bruce Allen Backberg

Typed Corporate Title: Sr. VP and Secretary

United States Fidelity and Guaranty Insurance Co.



Typed Name: Bruce Allen Backberg

Typed Corporate Title: Sr. VP and Secretary

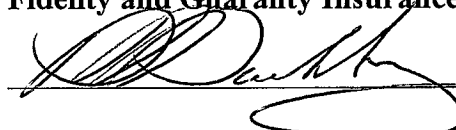
Fidelity and Guaranty Insurance Underwriters, Inc.



Typed Name: Bruce Allen Backberg

Typed Corporate Title: Sr. VP and Secretary

Fidelity and Guaranty Insurance Co.



Typed Name: Bruce Allen Backberg

Typed Corporate Title: Sr. VP and Secretary

ORDER OF THE INSURANCE COMMISSIONER

NOW, THEREFORE, pursuant to the foregoing Findings of Fact, Conclusions of Law, and Consent to Order, the Insurance Commissioner hereby orders as follows:

1. St. Paul is ordered to pay a fine in the amount of \$170,000, of which \$85,000 is suspended for two years on condition that St. Paul shall not violate the provisions of the Washington State Insurance Code and Washington Administrative Code which are the subject of this Order and on condition that St. Paul carry out the provisions of, and comply with, the Compliance Plan set forth in Exhibit A. The remaining \$85,000 fine shall be paid within sixty days from the date this Order is signed;
2. The Company is ordered to pay \$50,000 of the \$100,000 suspended fine imposed on May 9, 2001 under Consent Order No. D-2000-03 within sixty days from the date this Order is signed.
3. The Company shall comply with and carry out the Compliance Plan set forth in Exhibit A hereto, which Compliance Plan is hereby incorporated into this Order by reference as though fully set forth herein; and
4. The Company's failure to pay the fine within the time limit set forth above shall result in the revocation of the insurer's Certificate of Authority, and in the recovery of both the suspended and unsuspended amounts of the fine through a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

ENTERED AT TUMWATER, WASHINGTON, this 28 day of September, 2006.

MIKE KREIDLER,
Insurance Commissioner

By: Katherine A. White
Katherine A. White
Legal Affairs Division

EXHIBIT A - COMPLIANCE PLAN

A. Purpose of and Consideration for the Plan

The St. Paul Companies¹ (hereinafter "Companies") enter into this Compliance Plan with the Office of the Insurance Commissioner ("OIC") for the State of Washington to promote compliance by the Companies with the requirements of the laws and regulations of the State of Washington. The Companies are also entering into a Consent Order No. D06-249 with OIC ("Consent Order"). This Plan is attached to the Consent Order as Exhibit "A" and is fully incorporated into said Consent Order, and the Companies' obligations under this Compliance Plan are made a part of the Consent Order and constitute obligations under said Consent Order as though this Compliance Plan and the Companies' obligations under it were fully set forth in said Consent Order.

B. Term of Plan

The effective date of this Plan shall be the date of entry of the Consent Order, on which date this Plan shall become final and binding. The Companies' obligations under this Compliance Plan shall continue from its effective date until termination of the period during which conditions are imposed by the Consent Order suspending imposition of any portion of the fine set forth in the Consent Order.

C. Compliance Plan

1. Internal Audit

- a. Information to OIC: The Companies will conduct two annual audits, the first during January of 2007 and the second during October of 2007. The Companies have established an annual audit plan and schedule with regard to the violations included in the Consent Order (titled "Washington MCE Compliance Plan Instructions and Recommendations" which is attached to and incorporated within the terms of this Compliance Plan), and have provided a written copy of the plan and schedule to the OIC Legal Affairs Division. Copies of each internal audit report on the two annual audits to be performed during the period of this Plan shall also be provided to Christine Tribe of the OIC Legal Affairs Division within thirty days of the report being issued. Reports shall be issued no later than thirty days following the completion of each audit.
- b. Internal Audit Obligations: The Companies shall provide their staff conducting the audit with the Consent Order and shall direct their audit personnel to include the areas of violation in the annual audits conducted pursuant to this Compliance Plan.

¹ St. Paul Fire and Marine Insurance Co., St. Paul Guardian Insurance Co., St. Paul Mercury Insurance Co., Discover Property & Casualty Insurance Co., United States Fidelity and Guaranty Insurance Co., Fidelity and Guaranty Insurance Underwriters, Inc., Fidelity and Guaranty Insurance Co.

- c. Audit Scope: Each annual audit shall encompass at least fifty (50) files, or all of files if there are less than fifty available, for each of the violations listed in the Consent Order. Each file audited must involve Washington insureds or beneficiaries.
- d. Correction of Exceptions: Any exception or deficiency identified by the internal audits conducted pursuant to this Plan shall be corrected. The Companies agree to advise OIC within thirty (30) days of the audit report of any corrective measures contemplated to address any such exceptions or deficiencies or any other areas requiring correction. The OIC shall then review these measure(s) and notify the Companies of any comments associated thereto within thirty (30) days. Unless the OIC requests modifications to the proposed corrective measure(s), the Companies shall have thirty (30) days from the end of the OIC's review period to implement the measure(s). However, should the Companies need longer than thirty (30) days to correct any exception or deficiency, they may contact the OIC Legal Affairs Division and request an extension to the thirty (30) day requirement.

D. Miscellaneous

- 1. Authority to Enter Plan: The Companies give express assurance that under applicable laws, regulations and where applicable, their Articles and By-Laws, they have the authority to comply fully with the terms and conditions of this Plan, and that they will provide written notification to the other parties within ten days of any material change to this authority or of any violation of this Plan.

St. Paul Fire and Marine Insurance Co., St. Paul Guardian Insurance Co., St. Paul Mercury Insurance Co., Discover Property & Casualty Insurance Co., United States Fidelity and Guaranty Insurance Co., Fidelity and Guaranty Insurance Underwriters, Inc., Fidelity and Guaranty Insurance Co.

BY:

NAME: Bruce Allen Backberg

TITLE: Sr. VP and Secretary

DATE: September 21, 2006

Washington MCE Compliance Plan
INSTRUCTIONS AND RECOMMENDATIONS

Number	Instruction	Corrective Action
1.	The Companies are instructed to comply with RCW 48.05.190(1) and identify the true name of the insurer on correspondence	<p>The Small Commercial policies are all being transferred to legacy Travelers systems. These systems have been programmed to have the true company name displayed on all policies, notices and endorsements (self audits conducted in 2004 and 2005 confirmed that the Travelers systems were displaying the true company name). This process will be complete for our Small Business unit with August 1, 2006 renewals, and for our National Programs business with October 1, 2006 renewal.</p> <p>All VisionPak pre-renewal notices were automated to generate the true legal name of the insurer. We have verified that the pre-renewal notices have been automated and that they do generate the true legal name of the insurer.</p> <p>We will release a bulletin to field personnel reminding them of the requirements contained in RCW 48.05.190(1).</p>
2.	The Companies are instructed to comply with RCW 48.17.060 and RCW 48.17.160 to ensure that agents are licensed and appointed with the Companies prior to soliciting business for the Companies.	<p>The integration of the legacy St. Paul policies into the legacy Travelers agency administration computer system (PALS) has been completed.</p> <p>We will conduct two self audits (First Quarter, 2007, and Fourth Quarter, 2007) to verify</p>

3.		compliance with agency licensing and appointment requirements, and report results to DOI.
	<p>The Companies are instructed to comply with WAC 284-24-100 and fairly apply their schedule rating plans to every eligible policy. In addition, the Companies are instructed to identify all policies that were debited inappropriately and refund the overcharged premium.</p>	<p>The Financial and Professional Services new rating plan incorporates characteristics as stand alone rating factors that used to be rated on a schedule rating plan. For example, please see attached Rule 5.1 as Exhibit G, where loss prevention risk management, filed February, 2003, includes specific rating factors which were previously under the schedule rating plan.</p> <p>FPS began using a new rating worksheet in May, 2004 for the Real Estate Program to assist in applying and documenting schedule rating.</p> <p>The Small Commercial business has done initial training with Washington underwriting staff regarding reasoning for the use/no use of schedule rating. Additional training will take place within the next 45 days to reinforce the requirements. The Foundation System will be enhanced to generate a schedule rating worksheet when no schedule rating is applied to a policy. Currently, the underwriting staff is documenting rationale for policies with no schedule modifications within the policy notes system for each policy affected. This will continue and will be reinforced in the upcoming training. An automated attachment of the schedule rating worksheet with comments will also be developed.</p> <p>Our internet based policy quote/issuance system (SPC Xpress) used by our agents will be altered</p>

	<p>within the next 30 days to make every account over the minimum premium refer to an underwriter to verify compliance prior to issuance.</p> <p>Internal monitoring will be conducted as part of a Quality Assurance Program.</p> <p>Any new employee that will be handling Washington business will be trained on these guidelines within 7 days of their start. The training documents will be stored on a shared computer drive so they are easily accessible by all employees.</p> <p>Training was provided to Small Commercial staff on 5/13/04, 9/8/04, and again on 12/14/04 to reinforce the use and documentation of schedule rating. New procedures for SPC Xpress were upgraded on 9/26/04 to support the items mentioned above.</p> <p>The policies on the systems listed above are being moved to legacy Travelers systems. These systems have an automated scheduled rating worksheet which is generated and must be documented even when a 1.0 schedule modifier is applied.</p> <p>A filing will be made for VisionPak policies, which will include a premium threshold for Schedule Rating. This will clarify which policies will be eligible for schedule rating.</p> <p>The new VisionPal filing set a premium threshold of \$5,000 property plus CGL premium to qualify for</p>
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		<p>schedule rating. This program is highly automated and relatively generic therefore in the past schedule rating was not often considered. This eligibility threshold will allow us to better review all eligible accounts and therefore provide better documentation on the schedule rating process.</p> <p>Training sessions are currently being conducted throughout our business groups to reinforce the proper use of schedule rating and use of documentation.</p> <p>We will conduct two self audits (First Quarter, 2007, and Fourth Quarter, 2007) to verify compliance with our filed schedule rating plans, and report results to DOI.</p>
4.	<p>The Companies are instructed to comply with RCW 48.19.040(6) and follow their filed rules and rates when issuing a policy.</p>	<p>Individual operators contributed to these isolated errors. We have reinforced the appropriate use of rates and rules with those individuals, according to the filed rating plan.</p> <p>One business group affected held training on 5/17/04 to reinforce the use of appropriate rates. The other group, who uses a MGA, sent a reminder of the guidelines on 12/15/03. A third group held training with staff on 3/30/04.</p> <p>We will conduct two self audits (First Quarter, 2007, and Fourth Quarter, 2007) to verify compliance with our filed rates and rules, and report results to DOI.</p>

5.	<p>The Companies are instructed to comply with RCW 48.18.2901 and issue every offer of renewal or non-renewal within the law's specified timeframes.</p>	<p>To comply with the notice of actual renewal premiums to insureds for Small Commercial business, we will continue to consider the direct bill statement as notice to sufficiently comply with this requirement. Nearly all renewal policies are handled on a timely basis so that the bill is received by the insured in the required timeframe. For any accounts which will be issued late (inside the 23 day notice) or contain a change in coverage or condition, a separate conditional renewal notice will be mailed to the agent/insured with the specifics. Training will be held with the underwriting staff within 45 days to reinforce this procedure. Internal compliance will be monitored via our Quality Assurance Program (QAP). This program includes monthly samplings of policies handled by Washington underwriting staff. Contained within the Program is an area to validate regulatory compliance. Reviews will be conducted by front line management level staff with findings reported to upper management on a monthly basis.</p> <p>Initial training took place on 9/8/04 with a follow up on 12/14/04 to reinforce the requirements for renewals and non renewals. Periodic reviews have been done to ensure procedures are being followed.</p> <p>For accounts written on Agency Bill (where no direct bill statement is generated), a letter will be sent to all St Paul Travelers licensed agents in the State of Washington, outlining procedures. Agency bill policies represent <1% of the total Small</p>
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		<p>Commercial policies written.</p> <p>The letter referred to above was mailed to all agents in January, 2005 and will continue to be used on those accounts where no direct bill statement is generated.</p> <p>We will release a bulletin to field staff reminding them of the timeframes for renewal and non-renewal notifications, and will conduct two self audits (First Quarter, 2007, and Fourth Quarter, 2007) to verify compliance with RCW 48.18.2901, and report results to DOI.</p>
6.	<p>The Companies are instructed to comply with WAC 284-30-570 and complete every non-renewal or cancellation notice with the true reason for the action, in such detail that the insured does not need to undertake additional research to understand the Companies' decision.</p>	<p>Initial training has already taken place with Small Commercial underwriting staff to reinforce the need for specific reasoning. Additional training will take place within the next 45 days to enhance understanding. Staff will type the reasoning listed into the notice that is mailed to the agent/insured.</p> <p>Procedures have been provided on the use of specific reasons.</p> <p>Training was provided to Small Commercial staff on 5/13/04, 9/8/04, and again on 12/14/04 to reinforce the requirements of using specific reasoning for non renewals and cancellations. Information has also been placed on the company's intranet site for all staff to access.</p> <p>We will release a bulletin to field staff reminding</p>

		them of the need for providing specific reasons on cancellations and non-renewals, and will conduct two self audits (First Quarter, 2007, and Fourth Quarter, 2007) to verify compliance with WAC 284-30-570, and report results to DOI.